

A Changing Regulatory Environment

The multi-billion dollar Ponzi scheme orchestrated by recently convicted felon Bernard Madoff has caused the U.S. Securities and Exchange Commission (SEC) to propose rule changes to the Investment Advisors Act of 1940, Rule 206(4)-2, in order to enhance the oversight of Registered Investment Advisors (RIA) such as Sigma. One existing aspect of the Act has the SEC conducting routine on site exams of RIA's on a periodic schedule. Sigma Investment Counselors has been examined regularly, with the last taking place in 2005. Upon completion of Sigma's last exam, the SEC advised, via correspondence, that no further action was required by the firm. The SEC is now contemplating introducing a new measure wherein, as part of their routine exam, they will communicate directly with randomly selected clients of the firm being examined. The SEC will be seeking to ascertain from those clients independent verification of the portfolio values that the RIA is reporting and whether these values are indeed correct. (Note: In the Madoff scandal, clients were given bogus asset reports by Madoff.)

Sigma fully supports this effort by the SEC. Clients of Sigma Investment Counselors have their assets maintained at brokerage firms unaffiliated with Sigma and this arrangement enables clients to verify that the assets that Sigma reports are consistent with those that the brokerage firm reports on their statements. Nonetheless, the

stepped up efforts on the part of the SEC represent a positive move because it will help to reveal advisors that may be cheating their clients, a development that will ultimately lead to better protection for all clients.

Typically, SEC exams are done with little advance warning and even on a surprise basis. Sigma is not currently undergoing an SEC exam. However, it is reasonable to expect that we will have another exam within the next five years.

Sigma has been provided with a sample letter that the SEC may send to select clients during an exam. A condensed version of that letter is provided below. Clients wishing to review the letter in its entirety should contact Sigma. The purpose in providing this notice now is to be proactive and to make certain that when Sigma's next exam takes place, the firm and its clients will be well prepared.

As has been written in the past, Sigma has a very robust compliance effort, overseen by the capable and experienced Cheryl Kotlarz, Chief Compliance Officer. Clients with questions about any aspect of Sigma's compliance activities, or the various facets of the firm's internal control procedures designed to protect clients' assets, should feel free to contact Cheryl directly.

summaries

REQUESTS FOR INDEPENDENT CONFIRMATION OF ASSETS:

The U.S. Securities and Exchange Commission ("SEC") conducts examinations of the books and records of securities firms and investment advisers that are registered with the SEC. As part of these examinations, we may request independent confirmations of account balances directly with various persons, including clients or shareholders. These requests are made pursuant to a form called "Routine Account Information Confirmation." Please see below a blank copy of such a form.

If you receive a Routine Account Information Confirmation regarding a securities firm or investment adviser with whom you do business, your response is voluntary, but your cooperation would be appreciated and would help us in our oversight of the regulated community. Also, please note that these requests may be made in any type of examination. We wish to emphasize that our request that you complete a Routine Account Information Confirmation should in no way be construed, in and of itself, as an indication of any problem or irregularity by the firm being inspected.

In the past, examiners have made requests for independent confirmations of assets in forms that have differed from the model below. However, as of May 13, 2009, all requests will be in this form.

If you have any questions or concerns about a Routine Account Information Confirmation, do not hesitate to raise them with the examiners identified in the cover letter. In addition, if you wish to confirm that the request has been sent to you by SEC examiners, please call the main telephone number of the office that sent you the request and ask for the examiners identified in the cover letter. The telephone numbers of all SEC offices are available on the SEC's website at: <http://www.sec.gov/contact/addresses.htm>. Alternatively, if you prefer to speak with the staff in the SEC headquarters office located in Washington D.C., please call the "Examination Hotline" at (202)551-EXAM (3926).

Thank you for your cooperation.

The Economic and Market Environment

In Sum: In spite of President Obama's "gentler" approach with America's traditional adversaries (as foreshadowed in his inauguration speech offering a "hand" and asking for an "unclenched fist" in return), better relations have not resulted. To date, though, this does not appear to have had any adverse effects outside the arena of political rhetoric. Observed evidence indicates global economies are slowly emerging from the sharp slowdown of the final quarter of 2008 and the opening quarter of 2009. Monetary and fiscal policy actions have been singularly and globally directed towards aiding the economy. Common stock prices have largely responded positively during the past three months in response to the policy directives and perceptions of a firming economy. Interest rates continue at historically low levels, but have vacillated within a narrow band for the first half of 2009.

Geo-political: Different approach, same outcome. The Obama administration has been far more conciliatory than predecessor administrations towards America's antagonists, but not much improvement in relations is evident notwithstanding the changed posture. Iran's President has accused President Obama of "meddling" in Iranian affairs following the much contested presidential election in that country (and in spite of a muted response by the US President). Similarly, North Korea has become much more aggressive of late, launching test rockets and

allegedly hacking into various US websites in an attempt to make its "presence" felt and extort aid for the backward country. It would appear that events in these two countries are not commanding the expected attention one would expect, perhaps due to appropriate pre-occupation over global economic matters.

Economic: Two steps forward, one backward. In last months Sigma Summaries it was noted that there was considerable concern over the likely course of near term global economic growth. Concluding that recovery was more likely than relapse, recent economic indicators suggest a modest recovery is at hand. Notwithstanding continued deterioration in employment around the globe, auto sales declines appear to be moderating, home sales are stabilizing, and certain emerging economies are actually experiencing respectable growth.

Monetary: Liquidity continues to be provided by central banks around the globe, and interest rates are being kept low so as to forestall downward economic pressures. If economic improvement does not persist, it will not be a function of restrictive monetary policy.

Fiscal Policy: The recently passed economic stimulus spending measures by the US and other developed and developing nations represents a united global front in spurring economic progress. Criticism over the pace of spending, as well as the need for the size of the measures, dominates current debate. As with monetary policy, fiscal policy is clearly designed to aid economic growth.

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Equity Markets: Following a sharp recovery in equity prices for most of March, April and May, stocks generally weakened moderately in June and early July. Valuation measures are providing little guidance because of the unclear outlook for the near term prospects for global economic growth and hence, corporate profitability. Long term, and consistent with an expectation of strengthening

economic growth, equity prices will probably sustain gains, moving irregularly higher.

Fixed Income Markets: Interest rates have stabilized of late following a see-saw pattern for the first half of the year. Longer term, it would appear that interest rates may trend modestly higher.

The views in this publication are as of July 2009 and are for informational purposes only. The information presented in this publication is not intended to provide investment advice. Keep in mind that each sector of the market entails risk and statements concerning financial market outlook are based on current market conditions, which will fluctuate.

Please remember to contact Sigma Investment Counselors if there are any changes in your financial situation or investment objectives.